icsa
The Governance Institute

ICSA: The Governance Institute

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Business, Energy and Industrial Strategy Committee
House of Commons
SW1A 0AA

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Dear Sirs

Inquiry on Corporate Governance focussing on executive pay, directors' duties and the composition of boardrooms – written submission from ICSA: The Governance Institute.

1 The principal points that we would wish to make to the Committee are as follows:

- The UK corporate governance framework works well in the vast majority of cases, and ideas and innovations developed in this country are being replicated around the world (paragraph 3)
- While we support some incremental improvement, it is vital that we take care not to damage a process that is working (paragraph 3)
- All directors should continue to have the same legal duties, regardless of whether they are executive or non-executive (paragraph 4)
- A greater focus on the longer-term and responsibilities to members of defined benefit pension schemes may be helpful (paragraph 7)
- Directors' duties in the Companies Act 2006 are the right ones, but should be enforced more rigorously (paragraph 8)
- Governance standards across private and public companies should be based on size and societal impact rather than ownership structure. Privately owned companies and their owners, have the benefit of limited liability notwithstanding their size and societal impact. It therefore seems appropriate that they should accept some public responsibilities in return for this benefit (paragraph 16 *et seq*.)
- A specific 'comply or explain' corporate governance code for private and unlisted public companies with societal importance (paragraphs 22-23)
- In order to give greater assurance that appropriate emphasis is given to governance within private and unlisted public companies with significant societal impact, there should be an obligation for them to appoint a company secretary or other suitably qualified governance professional to support the board (paragraph 24)
- Executive pay should relate to performance over the longer term (paragraph 36)
- Employee share ownership should be encouraged and companies should consider whether performance based incentives should be offered on an equal basis to all employees (paragraph 39)
- Excessive pay is not solely an issue in public companies (paragraph 44 *et seq.*)
- More needs to be done to encourage greater diversity of perspective in boardrooms and on board committees, including, but not limited to, the voice of employees (paragraph 48 *et seq.*)
- Government or regulatory action should be proportionate and focus on results (*passim*)

2 ICSA: The Governance Institute is the international professional body with primary responsibility for governance. Our Royal Charter requires us to lead 'effective governance and efficient administration of commerce, industry and public affairs' and we are the qualifying body for Chartered Secretaries. The company secretary, the UK's governance professional, is at the forefront of governance arrangements within companies and so our members are ideally placed to understand the real need for both change in some areas and consistency in others and to think through the changes that need to be made to minimise the risk of unforeseen consequences, some of which have bedevilled previous corporate governance reform.

3 We welcome the Committee's decision to launch this inquiry focussing on executive pay, directors' duties and board composition, and this opportunity to respond. An informed and robust examination of these important issues will be a valuable contribution to the debate. The UK corporate governance framework works well in the vast majority of cases, and ideas and innovations developed in this country are being replicated around the world. The UK is home to some of the world's most successful companies and, despite occasional and well-publicised failures, our governance framework works well for our companies and the country. While we support some incremental improvement as explained below, it is vital that we take care not to damage a process that is working.

A. Directors' Duties

1. Is company law sufficiently clear on the roles of directors and non-executive directors, and are those duties the right ones? If not, how should it be amended?

4 Yes. We think that Directors' Duties, as set out in sections 171- 177 of the Companies Act 2006 (CA06) are clear and unambiguous. The terms of reference of the Committee inquiry refer separately to "the roles of directors and non-executive directors", but we would emphasise that, under CA06, these duties are the same, regardless of whether the director is executive or non-executive. We believe that it is important that all directors have the same duties as that means that they all have an equal commitment to doing the right thing.

5 Both your Committee and the anticipated Government consultation on Corporate Governance will, no doubt, review the decision made in 2006 to codify directors' duties as set out in ss171-177 CA06. These were debated at length during the consultation process, and we believe that they were appropriate then and continue to remain so. It is important that directors are clear as to whom they owe their duties.

6 While there have been a small number of well-publicised cases where the boards of companies self-evidently failed to give sufficient attention to some of the subsidiary matters set out in s172 CA06, we are confident that in the overwhelming majority of companies these obligations are well understood by the board, with the pro-active support of their company secretaries. We have covered this point in more detail in our response to your question 16. It is our experience that where there is impropriety it generally comes to light and is acknowledged and addressed quickly, with trades unions, journalists and NGOs all playing an important role in this process.

7 However, we can see a possible case for two potential amendments:

- the inclusion of reference to 'the longer term' in the primary duty in s172(1) CA06 rather than as a matter to which regard must be had. On the one hand, Professor John Kay's review in 2012 demonstrated that short-termism is one of the major issues facing companies, but on the other it is not only companies that drive short-term behaviours and some board decisions must, inevitably, focus on short-term considerations; and
- an explicit duty to have regard to the interests of members of defined benefit pension schemes. Many companies have been the sponsor of such schemes and, whether or not these are currently open, remain the default funder.

2. Is the duty to promote the long-term success of the company clear and enforceable?

8 Yes. As noted above, the duty to promote the success of the company is clearly set out in sections 172(1) and 172(1)(a) CA06. The consequences of a breach of duty by a director are set out in section 178 CA06 and there may be a case for more rigorous enforcement of statutory duties by the regulatory authorities as well as by shareholders, not forgetting that companies do fail, and failure alone should not be regarded as evidence of a breach of duty.

9 In addition section 260 CA06 provides for a derivative claim to be made against any director who is in breach of their duties (see section 260(3) CA06). The enhanced derivative action regime introduced by the CA06 made substantial improvements to shareholders' ability to take action. Our members' experience is that shareholders of both public and private companies are quick to engage with companies if they are unhappy and force change through that route. They very rarely need to resort to a derivative claim.

3. How are the interests of shareholders, current and former employees best balanced?

10 We believe that the interests of shareholders and employees are generally well balanced in CA06, although more effort may be needed to ensure that the voices of current and former employees are better heard, and we offer some suggestions around this in our response to your question 16.

11 Please see our response to question one above regarding a change to the list of directors' duties in respect of members of defined benefit pension schemes.

4. How best should the decisions of Boards be scrutinised and open to challenge?

12 There are two situations that must be considered here:

- where the directors are also the owners of a significant proportion of the share capital of the company; and
- where the directors are simply the management of the organisation to whom the owners have delegated day-to-day responsibility.

13 In the majority of private companies, the directors are also the owners and so the need for scrutiny and challenge is fundamentally external – the need for those affected by the company's decisions to be able to challenge them. The ultimate sanction is that of the Courts should the company or its directors or officers have broken the law. However, the Courts tend not to involve themselves in matters of legitimate commercial judgement and so such issues would more usually be addressed through the requirement that the directors 'have regard' to stakeholder interests as

required by s172 CA06 as outlined above. We believe that the current arrangements provide for effective scrutiny and challenge, but as mentioned in our response to question two could be more rigorously enforced.

14 In public and some (often larger) private companies, shareholders appoint the directors as stewards of their, or their clients' investment. Directors report to shareholders at the Annual General Meeting, where shareholders are able to question them, challenge the decisions made and replace the directors should they so wish. These are significant oversight powers, but it is important that they be exercised in a proportionate manner. The function of a board, as an agent acting for the owners, is to make decisions and this becomes more difficult if that function is usurped by the owner(s) second-guessing some of the decisions that are made. Again, we believe that the current arrangements provide for effective scrutiny and challenge.

15 Public companies subject to the listing rules are subject to substantial transparency requirements and so publish a great deal of information in their annual report and on their websites. Some private companies choose to be held to the same standards and companies in regulated sectors are also subject to the scrutiny of their regulator(s).

16 In addition to scrutiny by shareholders and regulators, the information that companies are required to disclose makes them subject to scrutiny by a wide variety of other interested parties, ranging from the press and public to special interest non-governmental organisations. These parties can, and often do, challenge the activities of the company. Reputation matters for all companies.

17 We have identified three means by which compliance with obligations under s172 might be scrutinised more effectively:

- through investor engagement, when the company could be challenged on this point by its major shareholders;
- through the board evaluation, which could be asked to comment particularly on challenge and the application of s172, with this being reported in the annual report; and
- through the sustainability report, where companies could be required to report on their application of s172 as part of their discussion of their relationship with stakeholders.

On balance, we believe the latter to be the most effective medium.

17 Again, we believe that these arrangements provide for effective scrutiny and challenge.

5. Should there be greater alignment between the rules governing public and private companies? What would be the consequences of this?

18 Yes, there should, as we believe that the rules governing companies should be dependent on size and societal impact, by which we mean the impact that that company has on the society in which it operates, whether through the number of people it employs, its position in the marketplace etc. rather than simply a feature of ownership structure. Whilst there have been some high-profile failures in private companies - BHS being a case in point - there is little evidence that the existing governance model for private companies is not working in the overwhelming majority of cases and so it is important that any enhanced rules governing companies should be proportionate to the benefit they bring.

19 The rules governing public companies and the associated transparency requirements are a reasonable consequence of a company having access to finance from the public and they help to provide protection for investors and creditors alike.

20 Privately owned companies may not need these rules for the purpose of investor protection, but they, and their owners, still have the benefit of limited liability notwithstanding their size and societal impact. It therefore seems appropriate that they should accept some public responsibilities in return for this benefit.

21 We believe that this could be best addressed by an obligation on those unlisted or private companies and those LLPs with greater societal impact to comply (or explain non-compliance) with the requirements of a corporate governance code. Many large private companies already choose to do so. They report voluntarily to their members, and to the wider public, on their compliance with the sections of the UK Corporate Governance Code (the Code) that are applicable to their circumstances although, as private companies and unlisted public companies are not subject to the Financial Conduct Authority's Listing Rules, they are not currently required to do so.

22 Whilst we believe that a well thought-through explanation is preferable to 'tick-box' compliance, a private company is likely to need to 'explain' more areas of non-compliance than public companies as some Code provisions may not be suitable for private companies. It may, therefore, be better to develop an alternative code more appropriate to their needs to avoid the need for a regulator to analyse a significant number of explanations.

23 We have seen some proposals for such a code, but do not believe that any of these would be fully effective. As mentioned above, it is critically important that any such code is proportionate to avoid placing an unnecessary burden on those companies or partnerships for whom it is not appropriate. We believe that the best test for this relates to their societal impact, but for simplicity of approach should be based on an existing metric. For example, this might be that the company is of sufficient size to qualify for external audit or that it must comply with the new regulations regarding publication of information on the gender pay gap because it has more than a prescribed number of employees. In either event, we would recommend that those private companies which are subsidiaries of others, particularly of quoted companies, be exempt.

24 There is, rightly, an increased focus on the governance of private and unlisted public companies with significant societal impact. In order to give greater assurance that appropriate emphasis is given to governance within these organisations, we believe that the Companies Act requirement for them to appoint a company secretary or other suitably qualified governance professional to support the board should be reinstated. This should also be subject to a proportionality threshold as suggested in paragraph 22 above.

6. Should additional duties be placed on companies to promote greater transparency eg around the roles of advisors. If so, what should be published and why? What would be the impact of this be on business behaviour and costs to business?

25 Not generally. In our view the distinction is simple – advisors advise, directors decide. We believe that directors should be encouraged to take advice where they feel it is appropriate for them to do so in order to comply with their statutory duties. However, it is only advice. Companies already

report on the role of their auditor and their remuneration consultants, and through the Code on the use of executive search firms and board reviewers. The decision should, generally, rest with the company as to when it is appropriate to disclose the fact that the directors have taken advice in order to balance the burden of disclosure against its value.

7. How effectively have the provisions of the 1992 Cadbury report been embedded? How best can shareholders have confidence that Executives are subject to independent challenge?

26 The core issues addressed by the 1992 Cadbury Code continue to be among the main concerns for companies and their shareholders. That original code has been subject to many additions and amendments since it was first created, including setting out criteria for director independence and conflicts of interest and many aspects of the UK approach to governance have been adopted around the world. We believe that the Financial Reporting Council has, generally, done a good job in keeping the Code up to date. We are not persuaded that further additions to the Code are necessary at present as the issues of board behaviours, culture and diversity, which we believe to be those most pressing at the moment, are areas which are notoriously difficult to manage through codes and regulation.

27 Shareholders can best be assured that executive directors are subject to appropriate independent challenge by electing non-executive directors in whom they have confidence to provide supportive and constructive challenge. Shareholders should trust those whom they have elected to the board; if they do not trust them, then they have the ability to vote against their appointment. Investors in UK companies have more power to do this than those in many other countries.

8. Should Government regulate or rely on guidance and professional bodies to ensure that Directors fulfil their duties effectively?

28 A mixture of law and sanctions, codes and guidance is essential for the appropriate management of companies. As we indicated in our response to question one, we believe that the current balance is broadly the right one to ensure that directors fulfil their duties effectively. These duties are explicitly enshrined in statute and guidance is available from the development of case law. We are not against further legislation or regulation in principle, but are not persuaded that it is the best way of solving the current problem in this area, which we believe to be around cultural and behavioural issues and a lack of focus on stakeholder issues. One of the strengths of the law as currently drafted is that it is sufficiently wide to be akin to the principles-based regulation that we see elsewhere in corporate governance, where it is not enough merely to comply with a set of rules, directors must also comply with their spirit. ICSA's Guidance Note on Directors' Duties is an example of the guidance available for directors from professional bodies.

29 We are advised that, with the exception of that small minority of high-profile cases mentioned in our response to question one above, directors generally do fulfil their duties effectively although there is a case for the more effective action being taken against those that do not. As noted in our response to question two above, companies do fail, and failure alone should not be regarded as evidence of a breach of duty.

B. Executive Pay

9. What factors have influenced the steep rise in executive pay over the past 30 years relative to salaries of more junior employees?

30 We believe that executive pay is sometimes excessive and that action needs to be taken to address it. However, we are pleased that the Committee have, in our view rightly, focussed on understanding the reasons why this situation has developed before seeking to do so. Remuneration has never been more regulated and is subject to shareholder ‘say on pay’ voting. Companies respond to investor requirements and, for the vast majority of well governed companies, this works well with remuneration reports being approved on an annual basis by overwhelming majorities of shareholders. Company secretaries have more access to discussions on executive pay through attending remuneration committee and board meetings than most other professions and so we hope that we will be able to help with your analysis.

31 We believe that there are four principal reasons for the steep rise in executive pay over the past 30 years relative to the salaries of more junior employees:

- increasing internationalisation of senior executive recruitment;
- complexity of senior executive pay structures including payment over the longer term;
- impact of consultants; and
- level of disclosure.

32 As companies operate in an increasingly global market, senior executive recruitment is an international competitive environment. We have heard from some members who have indicated that they have not considered certain individuals as a potential CEO, however well qualified, because they simply could not meet their pay expectations. At the most senior levels of organisations, where specific levels of skill and experience are demanded and where the impact of the individual on performance, share price and job creation can be significant, a competitive recruitment environment exists which is not usually replicated at more junior levels.

33 In recent years, many attempts have been made to align executive pay more closely with company performance and investor experience. One of the results of this has been the increasing complexity of executive pay, moving from a primarily salary-based structure to one where basic salary is, for many, a relatively small part of overall pay. The variable elements of executive pay – bonus, incentive plans etc. are subject to a variety of rules and, increasingly, to deferred payment. This is in line with shareholders' recommendation and the requirements of the Code, but the vast majority of more junior employees are paid in relation to current or immediately past performance, and so are not included in share settled deferred schemes, such as Long Term Incentive Plans. We have heard from a number of members that senior executives do not always fully understand their complex pay packages, particularly undervaluing deferred payments. Consequently, there is a tendency to demand higher levels of deferred payment which, because they frequently reference share price, sometimes result in high incentive payments in poorly performing years as they are rewarding better performance some years earlier. Any comparison of senior executive pay with that of junior employees will always be distorted by this fact. We firmly believe that pay should be linked to performance, but simplicity is a key criteria. We are seeing some encouraging signs of reductions in complexity, with more companies moving to having only one long-term plan, although this has been partially counter-balanced by retention requirements.

34 As the recruitment market has become more global and pay packages have grown more complex, we have seen an increasing role for both recruitment and remuneration consultants in the process. As noted in paragraph 25 above, our view is that advisers advise; directors decide and responsibility for pay packages remains with the board, but both of these groups are likely to have an incentive to see higher rather than lower packages – the former directly in terms of their fees and the latter indirectly in terms of their interest in the complexity of packages.

35 Finally, there is the ratcheting effect of increased transparency. Executives are better placed to compare their pay with that of their peers now that it is publicly disclosed, especially with the requirement for publication of a single figure, and are therefore in a stronger position to demand comparability.

10. How should executive pay take account of companies' long-term performance?

36 Many companies' pay policies are designed to take account of long-term performance and they report extensively in remuneration reports on the long-term performance measures that apply to executive remuneration. The measures for the performance related element of pay are complex and vary from company to company, according to what is considered appropriate and the views of shareholders, but in general will be linked to the execution of the company's strategy measured by reported KPIs. Remuneration committees should - and generally do - consider whether the formulaic outcome is sensible in the light of other issues that may not have occurred in the measurement period of may not have an immediate financial impact, for example reputational damage.

37 As noted in our response to question nine above, in our view, some of these measures have contributed to the ratcheting effect on executive pay. There are two areas where we think further thought is needed:

- There should be more emphasis on establishing base pay according to past performance, which is known, whilst focussing on future performance for performance related elements of pay.
- The whole area of deferred pay, mandatory holding periods and the right of the company to reclaim payments in the light of future events is a challenge. We believe that companies should include such provisions in executive pay policies, and they are keen to do so, but there are a number of issues that have yet to be resolved, particularly for international companies. For example the practice of clawback – recovering payments which have already vested – is much more difficult in practice and can be illegal in some countries, which creates difficulties for international companies.

11. Should executive pay reflect the value added by executives to companies relative to more junior employees? If so, how?

38 It should, and in a sense it could be argued that it does; however, in practice this is comparing two separate markets and two separate skill-sets, one of which is in far shorter supply and consequently more marketable than the other. The desire both to limit senior executive pay and at the same time raise the lowest pay in the organisation must be appropriately balanced and we believe that pay differentiation should be focussed on base salary and measurable incentives.

39 We believe that consideration should be given as to whether it is appropriate that senior employees have greater opportunity for percentage based benefits – for example in terms of bonus, pension entitlement or share option schemes – or whether these should be open to all employees on the same basis. There should be greater encouragement for employee share ownership as there is significant evidence that this can drive performance.

40 Rather than making comparisons between the highest and lowest paid employees within an organisation, we believe that it would be more helpful to focus on each separately – asking whether lower paid employees are being paid sufficiently, for example at least the living wage, and in line with their contribution; and, separately, asking whether executive directors represent 'value for money' in terms of what they have delivered. Pay ratios are not always a reliable indicator of this.

12. What evidence is there that executive pay is too high? How, if at all, should Government seek to influence or control executive pay?

41 There are several issues to take into account. The first question is who defines 'too high' and against what criteria? There is clear evidence of a public perception that there is a level of pay which is too high, regardless of performance, but it is not clear what this level is and how it is defined.

42 In our view, there are three separate elements underlying this public perception and the issues surrounding them, and the steps that may be taken to address them, differ. These elements are:

- that pay is disassociated from performance;
- that there is income inequality in our society; and
- that some people are simply paid too much.

43 In terms of the linkage of pay to performance, there has been a great deal of effective work done in relation to public companies to address this issue. This has primarily been led by shareholders, who have reviewed and approved, or not as the case may be, executive pay policies that are designed to align executive and shareholder interests. Shareholders have powers to reject pay policies of which they disapprove and to indicate to boards that they do not agree with the manner in which a policy has been implemented. We are still in the first cycle of pay policy implementation and therefore are yet to be convinced that further control is necessary. We believe that the Government should wait until the legislation introduced in 2013 has had time to demonstrate its effect.

44 If the central issue is that of income inequality in society, that is, in our view, not a corporate governance issue and so not one for companies and shareholders to address in isolation. The pay of senior executives in quoted companies is visible to all, but the same cannot be said of the income of those in equivalent positions in private companies, professional firms or private equity and other investment firms, to say nothing of entertainment or sports stars or those who receive income from inherited investment. There is a whole range of fiscal and other remedies available to Parliament and the Government to address these issues of inequality.

45 Similar arguments apply to quantum, the idea that there is a figure above which it is unreasonable for anyone to be paid. The Government may legislate to restrict the quantum of pay should it wish to do so, but the argument for limiting such restrictions only to the employees of public companies has yet to be made and doing so will address only a small proportion of those concerned.

13. Do recent high-profile shareholder actions demonstrate that the current framework for controlling executive pay is bedding in effectively? Should shareholders have a greater role?

46 We believe that the current framework for controlling executive pay is bedding in effectively, but would emphasise that we are still in the first cycle of pay policy implementation and there has been insufficient time to assess its impact. We have seen a considerable focus on this issue in engagement between companies and their shareholders and believe that the 2017 general meeting season, where pay policies are due for review will be an important test of the effectiveness of these measures. This shareholder-led control of executive pay can only be expected to address the linkage of pay and performance in a corporate context and not the wider issues of inequality in society and quantum outlined above.

47 Shareholders in the UK already have more power over executive pay than in most other countries, but do not always use them. Unless they become more willing to use their existing powers, it is hard to see a material benefit from giving them a greater role in the process.

C. Composition of Boards

14. What evidence is there that more diverse company boards perform better?

48 We firmly believe that as talent is diverse, boards that have taken advantage of that diversity are likely to perform more effectively. There is far more to diversity than gender, but Lord Davies' Review of Women on Boards and the reports published by Cranfield University School of Management (amongst others) have demonstrated some evidence of the benefits arising from company boards that are diverse in terms of gender. There is scope for more academic research in this area and in the area of diversity more generally.

15. How should greater diversity of board membership be achieved? What should diversity include eg gender, ethnicity, age, sexuality, disability, experience, socio-economic background?

49 Addressing the second part of this question first, we believe that all elements of diversity should be embraced in our society. The views of a diverse workforce will filter up to the deliberations of the board, whilst facilitating the development of a diverse team of senior management. This will, in turn, provide for opportunities to appoint people from a wider range of backgrounds to board positions. It is also important that companies understand the value of diversity, including increasing understanding of different cultural perspectives. Companies' approach to the training and development of staff is crucial and companies must comply with the spirit, as well as the letter, of anti-discrimination laws.

50 Our report in May this year, undertaken jointly with EY, on the role of the nomination committee provided strong evidence that many of the better nomination committees are making considerable progress in this direction, but this is a relatively recent change of approach and will take time to become fully effective.

16. Should there be worker representation on boards and/or remuneration committees? If so, what form should this take?

51 As discussed above, the statutory duties of directors include a requirement to consider other stakeholders and section 172(1)(b) CA06 specifically requires that directors "…have regard to (amongst other matters) …the interests of the company's employees". Employee interests should, therefore, already be taken into account by boards and it is the experience of our members that in the vast majority of cases they are.

52 As we noted in our response to your question one, we believe that it is important that all directors have the same duties as that means that they all have an equal commitment to doing the right thing. This is particularly important in a unitary board model as boards cannot function properly when each member is representing a particular constituency. This would impede debate around the board table and disrupt the collaborative approach to decision making that is essential for a board to operate effectively. For this reason, we do not support the development of a new 'class' of 'worker director' although this is not to say that employees other than executive directors should necessarily be excluded from board membership.

53 We believe that a better approach, and one more likely to address the underlying issues, might be to look at ways in which boards can get a better understanding of the views of stakeholders, in order to have greater regard to their interests. This might include a further review of the nomination committee process to broaden the range of candidates, including employees; adding 'advisory' members to the nomination and remuneration committees; or requiring specific board members to be the primary point of liaison with particular stakeholder groups.

54 We have been discussing these ideas with some investor representatives, including the Investment Association, and are hoping shortly to announce more details of a joint piece of work with them that will improve the ability of boards to balance the interests of all stakeholders.

17. What more should be done to increase the number of women in executive positions on boards?

55 We think that Lord Davies' initiative to increase women on boards was effective but the momentum now needs to be maintained to increase the number of women in executive positions. We await the outcome of the Hampton Alexander review, to which we have contributed, but think it is crucial that the 'pipeline' issues highlighted above are addressed, together with lifestyle policies to facilitate women's continued participation in the workplace. We would like to see a greater focus on broadening the diversity of Executive Committees, rather than a narrow focus on gender. One means of improving the pipeline of board-ready executives would be by encouraging high-potential managers to take on NED roles in other companies. We believe that company secretaries are natural NED candidates, given their boardroom experience and predisposition to good governance.

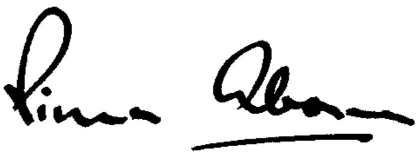
56 Our Boardroom Bellwether report, also in May 2016, undertaken in association with the Financial Times, revealed that only 28% of FTSE 350 companies believed that their female executive pipeline will be sufficient for the future needs of the company and, perhaps more concerning, 36% of FTSE 350 companies believed that their overall executive pipeline was insufficient for future needs. We believe that this pipeline issue needs to be fully resolved before it can be assumed that boardroom diversity will be a long-term feature.

57 That said, responsibility for action to increase the number of women in executive positions on boards and, indeed, to increase diversity of all kinds at all levels within organisations does not rest with companies alone. Our response to the Government Equalities Office consultation last year on the gender pay gap suggested a number of steps that should be taken at Government level to increase diversity in the executive pipeline which we believe are relevant here:

- Encouragement for young women and those from diverse backgrounds to consider the broadest range of careers, starting in schools. Such activity should be co-ordinated with the business world, which can help, indeed it is keen to do so as maximising the use of the available talent pool in the UK makes great business sense.
- More initiatives to support parental leave and childcare, which we believe to be at the heart of addressing the imbalance between men and women at senior levels in business. Supporting women to return to work and progress in their career after having children is a much bigger social issue than can be addressed simply by companies reporting data.
- More support for carers, in order that older working women and those from certain cultures are able to fulfil their career potential. For a variety of societal reasons, care for the elderly tends to fall more heavily on women than on men.

58 I apologise for the length of our response, but these are important issues and of key interest to our members. I hope that our comments are useful. If it would be helpful for me to appear before your Committee to discuss them in more detail, I should be happy to do so.

Yours faithfully



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